

**PINAL COUNTY ADMINISTRATIVE SERVICES
DIVISION OF LONG TERM CARE**

**Financial Statements
And
Supplementary Information**

Year Ended September 30, 2010

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Independent Auditors' Report

The Board of Supervisors of
Pinal County, Arizona

We have audited the accompanying financial statements of Pinal County Administrative Services, Division of Long Term Care (the Division, a proprietary fund of Pinal County, Arizona) as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Pinal County Administrative Services, Division of Long Term Care and do not purport to, and do not, present fairly the financial position of Pinal County, Arizona, as of September 30, 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinal County Administrative Services, Division of Long Term Care as of September 30, 2010, and the changes in financial position and cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of the Division taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects, in relation to the financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued our report dated , January 27, 2011, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Fester & Chapman P.C.

January 27, 2011

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF NET ASSETS
ENTERPRISE FUND

September 30, 2010

ASSETS

Current assets:	
Cash and cash equivalents	\$ 8,484,591
Net receivable from AHCCCS	1,347,889
Prepaid expenses	<u>115,674</u>
Total current assets	9,948,154
Noncurrent assets:	
Capital assets:	
Buildings, improvements and equipment	6,140,426
Less accumulated depreciation	<u>(1,677,825)</u>
Capital assets, net	4,462,601
Restricted cash and cash equivalents	<u>1,156,000</u>
Total noncurrent assets	<u>5,618,601</u>
Total assets	<u>15,566,755</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Claims payable	5,268,892
Accounts payable and accrued liabilities	409,122
Current portion of debt	<u>251,100</u>
Total current liabilities	5,929,114
Long-term debt, net of current portion	<u>2,096,300</u>
Total liabilities	<u>8,025,414</u>
Net Assets:	
Invested in capital assets, net of related debt	2,115,201
Restricted for health care	2,942,000
Unrestricted	<u>2,484,140</u>
Total net assets	<u>\$ 7,541,341</u>

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
ENTERPRISE FUND

Year Ended September 30, 2010

Operating revenues:	
AHCCCS revenue	\$ 56,301,591
Reinsurance	4,683,195
Other	<u>15,111</u>
Total operating revenues	<u>60,999,897</u>
Operating expenses:	
Institutional care:	
Nursing care - Level I	4,800,849
Nursing care - Level II	4,439,829
Nursing care - Level III	3,698,114
Specialty care	5,672,998
PPC institutional care	<u>215,292</u>
Total institutional care	18,827,082
Home and Community Based Services (HCBS):	
Home health - nurse	548,355
Personal care	160,503
Homemaker	373,423
Home delivered meals	135,766
Respite	125,672
Attendant care	17,100,595
Adult care home	2,165,662
Adult day health	99,615
Hospice	107,525
Assisted living arrangement	1,229,820
Environmental modifications	<u>125,358</u>
Total home and community based services (HCBS)	22,172,294
	(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(continued)

Year Ended September 30, 2010

Acute Care:

Inpatient services	\$ 2,925,048
Primary care physician services	372,442
Referral physician services	1,264,542
Emergency services	330,491
Outpatient facility	374,452
Prescription drugs	1,739,524
Laboratory/radiology	561,835
Durable medical equipment	946,126
Dental	58,229
Transportation (emergency \$470,864)	1,814,042
Therapies	301,484
Outpatient behavioral health	241,663
Infusion therapy	358,040
Dialysis	342,911
PPC acute	<u>110,501</u>
Total acute care	11,741,330

Case Management:

Case management payroll and payroll related	2,157,957
Case management, other	<u>43,204</u>
Total case management	<u>2,201,161</u>
Total medical costs	<u>54,941,867</u>

(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(continued)

Year Ended September 30, 2010

Administration Expenses:	
Compensation and benefits	\$ 2,980,036
Data processing	156,965
County management services	300,000
Professional fees	86,180
Insurance	17,544
Occupancy	24,901
Telecommunications	36,742
Depreciation	405,188
Office expenses	156,072
Printing and publishing	49,944
Travel	30,165
Other expenses	<u>40,994</u>
Total administration expenses	<u>4,284,731</u>
Total operating expenses	<u>59,226,598</u>
Operating income	1,773,299
Nonoperating revenues (expenses):	
Interest income	164,730
Interest expense	(105,154)
HCBS supplemental payments	(1,020,134)
Premium tax	<u>(1,246,710)</u>
Total nonoperating revenues (expenses), net	<u>(2,207,268)</u>
Net loss before transfers	(433,969)
Transfers out	<u>(2,007,910)</u>
Decrease in net assets	(2,441,879)
Net assets, October 1, 2009	<u>9,983,220</u>
Net assets, September 30, 2010	<u>\$ 7,541,341</u>

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF CASH FLOWS
ENTERPRISE FUND

Year Ended September 30, 2010

Cash flows from operating activities:

Cash received from:

Contractors, patients, and other payors	\$ 61,055,158
Miscellaneous operations	15,111

Cash payments to:

Providers for health care services	(54,497,619)
Supplies for good and services	(942,512)
Employees for services	<u>(5,108,444)</u>

Net cash provided by operating activities	521,694
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Cash flows from noncapital financing activities:

Premium tax payments	(1,246,710)
Cash transfers to the County	<u>(2,007,910)</u>

Net cash used for noncapital financing activities	(3,254,620)
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Cash flows from capital and related financing activities:

Payments on long-term debt	(244,900)
Interest paid on long-term debt	(106,991)
Purchase of capital assets	<u>(39,898)</u>

Net cash used for capital and related financing activities	(391,789)
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Cash flows from investing activities:

Interest received on cash and cash equivalents	<u>164,730</u>
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Net cash provided by investing activities	<u>164,730</u>
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Net decrease in cash and cash equivalents	(2,959,985)
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Cash and cash equivalents at October 1, 2009	<u>12,600,576</u>
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Cash and cash equivalents at September 30, 2010	<u>\$ 9,640,591</u>
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(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF CASH FLOWS
(Continued)

Year Ended September 30, 2010

Reconciliation of operating income to net cash used for operating activities:

Operating income	\$ 1,773,299
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Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation	405,188
Net book value of assets previously capitalized expensed as supplies in current period	37,184
HCBS supplemental payments	(1,020,134)

Changes in assets and liabilities:

Net receivables from AHCCCS	70,372
Prepaid expenses	(29,823)
Accounts payable and accrued liabilities	(20,817)
Claims payables	<u>(693,575)</u>

Net cash provided by operating activities	<u>\$ 521,694</u>
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Cash and cash equivalents at September 30, 2010, consist of:

Unrestricted cash and cash equivalents	8,484,591
Restricted cash and cash equivalents	<u>1,156,000</u>
Total	<u>\$ 9,640,591</u>

Supplemental disclosure:

Interest paid	\$ 106,991
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Supplemental disclosure of noncash noncapital financing activities:

Transfer to Pinal County	\$ (2,007,910)
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The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 1 – GENERAL DIVISION DESCRIPTION

The financial statements presented are for Pinal County Administrative Services, Division of Long Term Care (the Division) (formed in 1990), which is a department of Pinal County, Arizona. The Division provides hospitalization, medical care, managed institutional care, and home and community based long term care for physically disabled and elderly persons. The Division's programs are funded by the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS funds include federal, state and county monies.

The Division is a provider group providing health services to individuals qualifying for care under Arizona Long Term Care System (ALTCS), mainly in Pinal County and Gila County, Arizona. ALTCS pays the Division monthly, based on a contracted capitated rate and on the number of ALTCS members enrolled in the Division. The Division then subcontracts with medical service providers to provide the services required by ALTCS. The Division itself does not provide medical services other than case management. The Division contracts with primary care physicians and other acute care providers to render acute care services. The primary care physicians are capitated monthly to provide certain medical services. Other providers are compensated at negotiated rates, AHCCCS rates or other rates.

For financial reporting purposes, the Division is accounted for as an enterprise fund of Pinal County, Arizona, under the direction of administrators appointed by the Pinal County Board of Supervisors. Ultimate fiscal responsibility for the Division remains with the County. The Division accounts for funds received from AHCCCS under ALTCS. ALTCS provides hospitalization and medical care services, as well as managed institutional and home and community based long term care services to eligible enrollees of the program. No other County operations are included in these financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Fund

A Fund is described as an independent fiscal and accounting entity with a self-balancing set of accounts used to record assets, related liabilities, reserves and equities which are segregated for the purpose of carrying on activities of the reporting entity.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Proprietary (Enterprise) Fund

This fund type is used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting, following generally accepted accounting principles (GAAP) as they apply to enterprise funds of state and local governments, and following the reporting guidelines as established by AHCCCS.

Pronouncements of GASB and FASB

Government Accounting Standards Board (GASB) Statement No. 20 states that Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to Enterprise Funds unless they conflict with or contradict GASB guidance.

Enterprise Funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements issued subsequent to the cutoff date, but not others.
2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The Division has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Division considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the Division's monies are under the direct supervision of the Pinal County Treasurer's Office.

Revenue Recognition

a. Capitation Revenue

The Division receives capitation payments under the AHCCCS contract based on member months equivalents. At the beginning of each month, the Division receives capitation based on the number of members enrolled for that month. As members are added or removed from enrollment, capitation is adjusted for the remaining portion of the month. At any given time, capitation may be due to or due from AHCCCS. Capitation revenue is recognized in the month that members are entitled to long-term and acute health care services. The Division is required to provide those services to its members, regardless of the cost of care provided.

b. Reinsurance Revenue

The Division is entitled to receive reinsurance revenue from AHCCCS for a percentage of costs incurred for medical care in excess of a stated deductible per member per contract year.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

c. Share of Cost Adjustment

Per the contract with AHCCCS, members with income in excess of standards set by AHCCCS are to pay a portion of their covered expenses. This is known as a Share of Cost (SOC). A portion of the Division's capitation is based on assumed SOC per member per month. If actual assigned SOC is less than assumed SOC, AHCCCS has agreed to reimburse the Division. If actual assigned SOC is greater than assumed SOC, the Division has agreed to reimburse AHCCCS. The SOC adjustment is based on current assigned SOC information from AHCCCS.

Capital Assets

Capital assets in excess of \$5,000 are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3-30 years.

Restricted Cash and Cash Equivalents

AHCCCS requires the Division to maintain a performance bond or its equivalent. Restricted cash and cash equivalents consist of monies held in lieu of a performance bond.

Income Taxes

The Plan is a division of a governmental entity, and as such does not pay income taxes. Therefore, no provision for income taxes has been made in these statements.

Medical Expenses

All medical expenses are reported net of Medicare payments.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 3 – NET RECEIVABLE FROM AHCCCS

In addition to the monthly capitation payments from AHCCCS, the Division receives reimbursements of medical and medically related expenses for certain types of claims. AHCCCS partially reimburses the Division for patients whose care expenses exceed a \$20,000 annual limit. At September 30, 2010, the Division has a receivable from AHCCCS for reinsurance of \$1,563,979.

The contracted capitation rate from AHCCCS includes estimates for home and community based services (HCBS) and share of costs components. Thus, after year end, these components are adjusted to an assigned HCBS percentage and share of costs, based on actual experience during the year, and the adjustments are made to capitation received during the year. At September 30, 2010, these adjustments resulted in amounts due to AHCCCS of \$216,090.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Building and improvements	\$ 4,699,042			\$ 4,699,042
Furniture and equipment	1,554,156	\$ 39,898	\$ (244,518)	1,349,536
Vehicles	91,848			91,848
Less accumulated depreciation	<u>(1,479,971)</u>	<u>(405,188)</u>	<u>207,334</u>	<u>(1,677,825)</u>
Total capital assets, net	<u>\$ 4,865,075</u>	<u>\$ (365,290)</u>	<u>\$ (37,184)</u>	<u>\$ 4,462,601</u>

NOTE 5 – CLAIMS PAYABLE

The Division utilizes a computerized authorization system to aid in the determination of claims incurred but not reported and to prevent unauthorized services from being rendered. In overview, providers are required to obtain authorization before services are rendered for all services except pharmacy. The authorizations are recorded and matched to claims as they are received. Thus, the amount of claims incurred but not reported can be determined by examining authorizations that have not been matched to claims. By including the amount of claims received but not paid, the total claims payable can be determined, in accordance with the AHCCCS Reporting Guide for Acute Health Care Contractors, Revised October 1, 2009, § 5.01.. As of September 30, 2010, management determined claims payable totaled \$5,268,892 using this system.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 6 – LONG-TERM DEBT

During the year ended September 30, 2008, the Division and The Greater Arizona Development Authority executed a loan agreement which provided \$2,800,000 in funding for the construction of a building. The interest rate is 4.35%. Interest and principal payments began January 1, 2009 and July 1, 2009 respectively, and the loan matures on July 1, 2018.

The future scheduled maturities of long-term debt are as follows:

<u>Years ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 251,100	\$ 99,665	\$ 350,765
2012	263,500	89,621	353,121
2013	272,800	79,081	351,881
2014	285,200	68,169	353,369
2015	294,500	56,761	351,261
2015-2018	<u>980,300</u>	<u>91,412</u>	<u>1,071,712</u>
Total	<u>\$ 2,347,400</u>	<u>\$ 484,709</u>	<u>\$ 2,832,109</u>

NOTE 7 – RESTRICTED NET ASSETS

Per the contract with AHCCCS, the Division is required to retain in equity an amount equal to \$2,000 per enrolled member at year end. As of September 30, 2010 the Division had an equity-to-member ratio of \$5,127 per member. Net assets have been reserved for \$2,942,000, or \$2,000 per member. The balance of any equity may be distributed after the issuance of the audited financial statements, with AHCCCS's permission. During the year ended September 30, 2010, the Division transferred \$2,007,910 to the County.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 8 – RETIREMENT PLAN

Plan Description

The Division contributes through Pinal County to the Arizona State Retirement System (ASRS), which administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, and long-term disability, survivor, and health insurance premium benefits. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling:

ASRS
3300 N. Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the Plan's contribution rates.

For the year ended June 30, 2010, active ASRS members and the Division were each required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent retirement and 0.40 percent long term disability) of the members' annual covered payroll. The Plan's contributions to ASRS for the year ended September 30, 2010, 2009, and 2008, were \$377,411, \$378,405 and \$367,394 respectively, which were equal to the required contributions for the year.

NOTE 9 – RELATED PARTY TRANSACTIONS

Due to lack of providers in Pinal County, the Division contracts for services with other County operations. These operations for medically-related services include the Pinal County Horizon Home Care. For the year ended September 30, 2010, the Division paid these operations \$5,010,566 for services and has claims payable to them of \$1,067,498.

In addition to medical and medically-related services, the Division contracts with Pinal County for certain other services. During the year, the Division paid the County \$300,000 for legal, finance, and other administrative services. In addition, the Division initially transferred \$631,569 to the County's general fund. Subsequent to the initial transfer, the division contributed \$1,057,857 to fund the County's general fund operations and \$318,484 to fund the County's SMILE program. The Division's employees are employees of the County and are subject to all rules and regulations of Pinal County. The Division's liability insurance is provided as part of the County's coverage.